

Message Text

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PAGE 01 OSAKA 00605 030751Z

17-12

ACTION EB-05

INFO OCT-01 EA-07 ISO-00 RSC-01 DRC-01 /015 W

----- 129891

O R 030610Z OCT 73

FM AMCONSUL OSAKA KOBE

TO USDOC WASHDC IMMEDIATE

INFO SECSTATE WASHDC 1295

AMEMBASSY TOKYO

UNCLAS OSAKA KOBE 605

E.O. 11652: N/A

TAGS: BEXP, JA

SUBJECT: FLUID POWER (FPP) JEEP, FEB. 21-23, 1974

REF: USDOC 15095, 14128

1. SUMMARY: POST RECOMMENDS A TWO DAY JEEP ORIENTED TOWERED POTENTIAL AGENTS. VITAL NTM FIRMS NOT SIGN AGENCY AGREEMENTS BEFORE COMING TO OSAKA. APPROX. US DOLS 100-150 MILLION MARKET FOR FPP IN KANSAI. EXCELLENT AGENCY PROSPECTS. POSSIBILITY OF OFF-SITE INTERNATIONAL PAIR IN LATE 1974 IN OSAKA.

2. FLUID POWER PRODUCT (FPP) MARKET IN JAPAN HAS GROWN RAPIDLY. FROM AUGUST 1972 TO JULY 1973 SALES ARE ESTIMATED AT YEN 155 BILLION, YEN 120 BILLION FOR HYDRAULICS AND YEN 35 BILLION FOR PNEUMATICS. ASSESSMENT OF THE SIZE OF OSAKA FPP MARKET DIFFERS BETWEEN HYDRAULIC MANUFACTURERS REPORT THAT SALES IN TOKYO HAVE INCREASED AT A HIGHER RATE THAN IN OSAKA, AND THE SIZE OF OSAKA FPP MARKET IS ABOUT ONE THIRD OF THAT OF TOKYO. THEY ESTIMATE THAT JAPANESE MARKET MAY GROW AT AN ANNUAL RATE OF 15 PERCENT. PNEUMATIC MANUFACTURERS ESTIMATE THE SIZE OF OSAKA FPP MARKET OF FLUID POWER EQUIPMENT AT 70 PERCENT TO 100 PERCENT OF THE TOKYO MARKET. THEY ESTIMATE THAT THE FLUID POWER MARKET IN JAPAN MAY GROW AT A RATE OF 20-30 PERCENT ANNUALLY. THE DIFFERENCE IN OSAKA MARKET SIZE ESTIMATE PROBABLY REFLECTS THE PERCEPTION OF THE MARKET FOR THEIR OWN PRODUCTS.

3. THE DECISION-MAKING FUNCTIONS FOR LARGE FIRMS IN JAPANESE
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HEAVY INDUSTRY IS MORE AND MORE BEING CENTRALIZED IN HIGHLY

SPECIALIZED RESEARCH AND DEVELOPMENT SECTION ATTACHED TO TOKYO HEADQUARTERS OR BRANCH OFFICES. ACCORDINGLY, HEAVY INDUSTRY AND BIG PROJECT APPLICATIONS OF FLUID POWER EQUIPMENT SHOULD BE PROMOTED IN TOKYO ONLY. ON THE OTHER HAND, MUCH OF THE EQUIPMENT FOR SUCH APPLICATIONS WOULD NORMALLY BE TOO LARGE AND HEAVY TO MOVE ECONOMICALLY IN INTERNATIONAL TRADE. NORMALLY, SUCH EQUIPMENT WOULD BE MANUFACTURED IN JAPAN UNDER LICENSING ARRANGEMENTS.

4. ASIDE FROM HEAVY INDUSTRY APPLICATIONS, THE REMAINDER OF THE JAPANESE FLUID POWER MANUFACTURING MARKET IS CHARACTERIZED BY A LARGE NUMBER OF SMALL AND MEDIUM-SIZED FIRMS (PERHAPS 50 PERCENT IN TOKYO, 35 PERCENT IN OSAKA) CAUGHT IN A DILEMMA: THE PROMISING GROWTH PROSPECTS IN THIS FIELD ARE ATTRACTING THE ATTENTION OF LARGE JAPANESE COMPANIES WHICH EITHER HAVE ALREADY OR ARE EXPECTED TO ENTER THE MARKET AS MANUFACTURERS AND SYSTEM DESIGNERS. THE SMALL AND MEDIUM-SIZED JAPANESE FIRMS DOES NOT HAVE LARGE ENOUGH SALES TO JUSTIFY LARGE R&D INVESTMENTS, SO THEY ARE BEING FORCED TO DEVELOP NARROW SPECIALIZATIONS WHICH FURTHER CONSTRICTS THEIR MARKET. THE WAY OUT OF THIS DILEMMA IS TO OBTAIN ACCESS TO THE TECHNICALLY SOPHISTICATED PRODUCTS OF AMERICAN COMPANIES. FROM THE POINT OF VIEW OF THE AMERICAN COMPANY, THE OPPORTUNITY EXISTS TO USE THE CONTACTS AND DISTRIBUTION CHANNELS OF THESE JAPANESE MANUFACTURERS TO DISTRIBUTE AMERICAN GOODS IN JAPAN ON AN EXCLUSIVE OR NON-EXCLUSIVE BASIS DEPENDING ON THE NATURE OF THE JAPANESE FIRM (AS AGENT) AND ON THE U.S. FIRM'S PREFERRED SALES APPROACH.

5. NIPPON KOGYO SHIMBUN (NKS) HAS SPONSORED THE JAPAN INTERNATIONAL FLUID POWER INTERNATIONAL EXHIBITION (JIFP) IN TOKYO EVERY TWO YEARS FOR THE PAST TWELVE YEARS. NKS IS CONSIDERING A JIEP IN OSAKA IN 1974 BUT A DECISION IS NOT LIKELY BEFORE THE END OF 1973. IF SUCH A SHOW WERE HELD, THE VALUE OF A SEPARATE U.S. JEEP IN OSAKA IN 1974 MIGHT BE IN QUESTION.

6. POST CAN ISOLATE 10 SIGNIFICANT PNEUMATIC MANUFACTURERS AND 10 TRADING COMPANIES WHO ARE POTENTIALLY GOOD DISTRIBUTORS FOR U.S. PRODUCTS. ALL CAN BE EXPECTED TO ATTEND THE TOKYO TRADE CENTER SHOW. WE WOULD EMPHASIZE TWO POINTS:
--AN OSAKA BUSINESSMAN TRAVELLING TO TOKYO TYPICALLY WILL TRY TO TAKE CARE OF A NUMBER OF ITEMS OF BUSINESS AND HIS TIME WILL BE UNCLASSIFIED

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CAREFULLY RATIONED. HE MAY NOT BE ABLE TO SPEND AS MUCH TIME AT TOKYO TRADE CENTER AS WOULD BE DESIRABLE.

--ONLY ONE OR TWO PEOPLE FROM AN OSAKA FIRM MAY GO TO THE TOKYO SHOW, BUT THE DECISION WITH RESPECT TO AN AGENCY AGREEMENT MAY INVOLVE A LARGE NUMBER OF PEOPLE, ALL OF WHOM WOULD ATTEND AN OSAKA SHOW.

WE WOULD EMPHASIZE THAT ANY COMPANY PARTICIPATING AN OSAKA JEEP SHOULD AVOID COMMITMENT TO AN EXCLUSIVE AGENT BEFORE COMING TO OSAKA, OR THE VALUE OF EXPOSURE TO CAPABLE POTENTIAL AGENTS IN OSAKA IS LOST.

7. WITH RESPECT TO END USERS, THE SALES FIGURES IN PARAGRAPH 2 WOULD SEEM TO SPEAK FOR THEMSELVES. THE NUMBER OF POTENTIAL END USERS FOR FPP IS LARGE. THE MEDIUM AND SMALL FIRMS IN THE OSAKA AREA ARE NOT LIKELY TO TRAVEL TO TOKYO TO SEE THE SHOW. ON THE OTHER HAND FPP ARE NOT OFF-THE-SHELF PRODUCTS, SO OUR PROMOTION EFFORTS OUGHT NOT TO BE DIRECTED HEAVILY TOWARD END USERS FOR NTM FIRMS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 03 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OSAKA00605
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: OSAKA KOBE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731053/aaaabnfx.tel
Line Count: 128
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: USDOC 15095, 14128
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 30 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30-Nov-2001 by chappeld>; APPROVED <07 MAR 2002 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FLUID POWER (FPP) JEEP, FEB. 21-23, 1974
TAGS: BEXP, JA
To: n/a
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005